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MEMORANDUM FOR: Executive Director
THROUGH : Deputy Director (Research)
SUBJECT : NRO Funding

PROBLEM:

1. A decision is required determining whether funds for CIA projects under the NRO should be included in the CIA Budget as part of the CIA appropriation or whether they should be included as projects undertaken by CIA under NRO for which reimbursement is requested. In either case, the projects (OXCART, IDEALIST, etc.) would be identified to Congress as projects which would be carried out by the Agency. In the latter case, however, the funds would be actually appropriated to the Defense Department and made available to CIA as reimbursements.

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BACKGROUND:

NRO review(s) completed.

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4. The new NRO Agreement provides, with respect to funding, that the NRO will be responsible for (paragraph K.) "Preparation of budget requests for all NRO programs, and presentation and substantiation of such budget requests to the Secretary of Defense and the Director of Central Intelligence, the Bureau of the Budget and Congressional Committees." The same paragraph also provides that "CIA will include in its budget presentation to the Bureau of the Budget and Congressional Committees the funds for those NRP tasks which are assigned to CIA and which are to be financed from NRO resources."

The new NRO Agreement also provides that the NRO will be responsible for (paragraph L.) "Direction and management of the application of, and administration of all funds made available for the National Reconnaissance Program." This paragraph also provides that "Funds expended or obligated under the authority of the Director of Central Intelligence under Public Law 110 will be administered and accounted for by CIA."

5. The DCI has directed that the funds for CIA NRO projects be included in the CIA budget. It can be argued that either method indicated in paragraph 1. above would conform to the meaning and spirit of the provisions of the NRO Agreement and the DCI's instructions.

**RELATIVE ADVANTAGES AND DISADVANTAGES OF PROCEEDING BY
WAY OF APPROPRIATION OR REIMBURSEMENT**

6. Inclusion by CIA of the [redacted] for NRO projects 25X1
in its appropriation as new obligation authority will have:

a. Advantages as follows:

(1) The appropriation of funds to the Agency to finance NRO tasks assigned to CIA will clearly identify, in the minds of the Congressional Committees and others, CIA program responsibility for such tasks.

(2) The appropriation to CIA cannot be legally diverted from CIA to non-CIA projects.

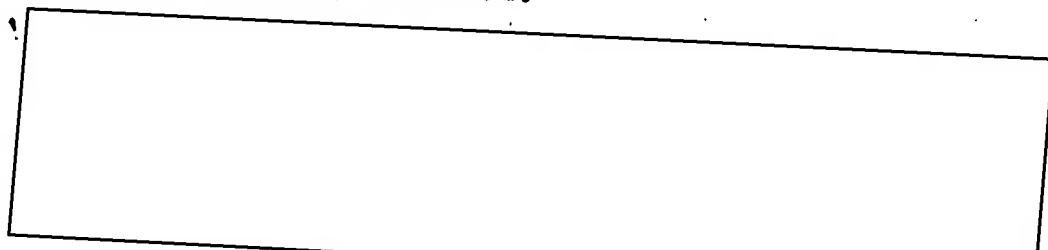
(3) Control of these funds will, accordingly, be more firmly vested in CIA channels.

b. Disadvantages as follows:

(1) The control vested in CIA by an appropriation may be more apparent than real, as NRO will, to a very considerable degree, exercise centralized control over the administration and funding of projects.

(2) The Defense Department has, thus far, refused to recognize the validity of appropriations to CIA for NRO projects as discussed in paragraph 3. above.

(3) Due to the problems of overruns and the urgency of these NRO projects, it is impractical to budget adequate funds, either under operations or in the Reserve for Contingencies, to meet all requirements as they develop. Thus, the Agency has obtained supplemental funds, as reimbursements, from DOD.



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7. Both the Bureau of the Budget and the Defense Department have strongly urged centralized budgeting in NRO for all NRO projects. There is every indication that they would regard insistence by CIA on the inclusion of funds for NRO programs in the Agency's appropriation as a retrogression which would probably provoke lengthy renegotiations. This would appear to be justified only if there are substantial advantages to be gained from a policy point of view in terms of control or otherwise.

CONCLUSION

8. In balance, I believe that the disadvantages of including funds for NRO projects in the Agency's appropriation outweigh the advantages. Accordingly, I have concluded that it would be better to include in the CIA budget the amount required for CIA NRO projects as reimbursements from DOD for the following reasons:

a. Under this arrangement, the funds would be part of the CIA presentation to the Congress but would not appear as new obligational authority. This would relieve the Agency from the onus of defending a request for a new obligational authority.

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b. The integrity of program funds required by CIA to finance its projects can be maintained by a joint arrangement with the NRO in the form of an instruction issued by the DNRO and concurred in by the DDNRO or otherwise.

c. Developments to date have uniformly pointed in the direction of an integrated NRO. Although it is not intended that the operational components concerned with NRO activity should be consolidated within the NRO as a separate entity, it nevertheless appears to be the general view that the NRO should function with a certain degree of autonomy. Both the Defense Department and the Bureau of the Budget believe that centralized programming, budgeting, and funding is a desirable (if not an indispensable) element of the NRO. I do not believe that the interests of the Agency will be adversely affected by acquiescence in this arrangement provided the fund requirements for Agency projects are clearly identified and administered by CIA.

d. CIA responsibility for the Agency assigned NRO projects can be effectively exercised through the assignment of a CIA official as the Deputy Director, NRO, and, where necessary, through negotiations between the DCI and the Secretary of Defense.

9. In reaching these conclusions, it should be recognized that I am influenced by (a) a desire to reduce the over-all amount of the

Agency's budget and (b) the provisions of the NRO agreement concerning executive control of the NRP.

RECOMMENDATION

10. Accordingly, it is my personal recommendation that NRO budget for the entire NRP and that CIA reflect in its budget, on a reimbursement basis, specific projects assigned to it for administration. I recognize, however, that in the last analysis the DD/R is responsible for administering the NRO projects assigned to CIA. Accordingly, I will defer to his ultimate views and am attaching drafts of two instructions; one to provide for direct appropriations to CIA for Agency administered NRO projects and the second one for NRO budgeting for the entire NRP with reimbursements to CIA on Agency administered projects. When a final Agency policy on this has been established, appropriate Agency officials should discuss the proposed instructions with the DNRO.

John A. Bross
JOHN A. BROSS
Comptroller

Attachments

Distribution:

- Cy #1 of 6 - Exec. Dir.
- ✓ #2 of 6 - DD/R
- #3 of 6 - Comptroller
- #4 of 6 - Gen. Counsel
- #5 of 6 - C/Budget Div.
- #6 of 6 - Comptroller

ALTERNATIVE NO. 1

NRO Instruction No. 1

**SUBJECT : Procedures for CIA Budgeting for the National
Reconnaissance Program**

**REFERENCE: DCI - Deputy Secretary of Defense NRO Agreement,
13 March 1963**

**1. Purpose: To implement budgeting arrangements governing
the inclusion and earmarking within the CIA budget of monies to cover
NRO assigned tasks as required under paragraphs III, K. and L. of the
above reference.**

2. Procedures:



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**b. The integrity of the funds contained in the Agency
appropriation for NRO assigned tasks will be maintained unless
adjustments are mutually agreed to by CIA and DOD. Any**

modification in the NRO program affecting the utilization of funds within the CIA budget earmarked for NRO assigned tasks will be made only on the approval of the Director, NRO.

c. The Deputy Director, Research (who is also the Deputy Director, NRO) will be responsible for directing the NRO tasks within CIA and ensuring in coordination with the CIA Comptroller the proper application of funds to these tasks.

d. To facilitate and assure smooth budgeting and funding arrangements between NRO and CIA both with respect to funds appropriated to the CIA budget for NRO assigned tasks and the advances of monies from NRO handled through the CIA accounts, the CIA will appoint a senior Comptroller representative to the staff of the Director, NRO. This representative will be responsible for:

(1) Liaison between the Comptroller, NRO and elements of CIA.

(2) Ensuring adherence to the requirements of paragraph III. 1, of reference with respect to Agency funds earmarked for NRO tasks.

(3) Providing such financial reporting as required by NRO and CIA with respect to NRO projects administered by the Agency.

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(4) **Assisting in developing the budgetary presentation of those NRO tasks contained in the CIA budget and ensuring consistency with the D/NRO policies and objectives.**

Director, National Reconnaissance Office

ALTERNATIVE NO. 2

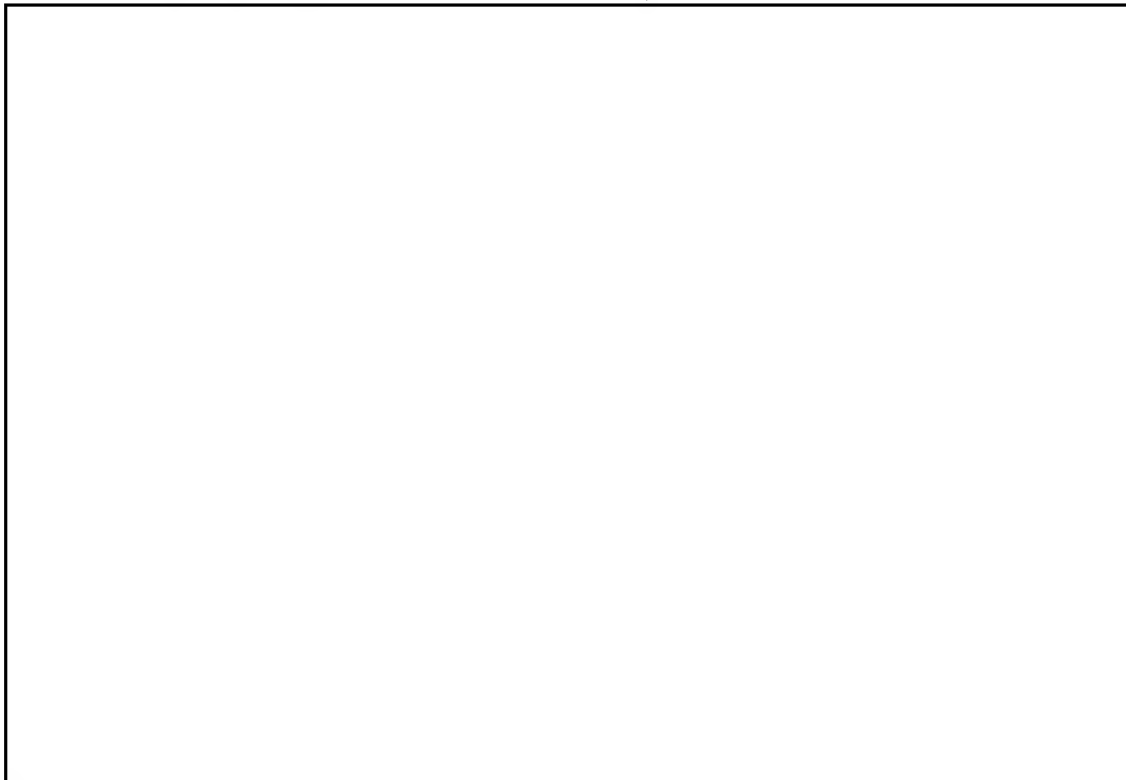
NRO Instruction No. 1

**SUBJECT : Procedures for CIA Budgeting for the National
Reconnaissance Program**

**REFERENCE: DCI - Deputy Secretary of Defense NRO Agreement,
13 March 1963**

1. **Purpose:** To implement budgeting arrangements governing the inclusion and earmarking within the CIA budget of monies to cover NRO assigned tasks as required under paragraphs III. K. and L. of the above reference.

2. **Procedures:**



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d. CIA will administer NRO assigned tasks separately from its regular programs and will obtain apportionment of such anticipated reimbursements from the Bureau of the Budget.

e. CIA will continue to account separately for funds which may be advanced by the NRO in support of non-CIA assigned tasks, but which are transferred to the Agency by NRO for security or other reasons.

3. Implementation:

a. The above procedures are to be effective commencing with the Fiscal Year 1964 budget.

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c. Any additional funds required in FY 1963 to finance

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the CIA tasks in the NRP will be made available in the form
of reimbursements from the NRO.

Director, National Reconnaissance Office